

OVERVIEW OF THE 1987-88 GOVERNOR'S BUDGET FOR POSTSECONDARY EDUCATION IN CALIFORNIA

GOVERNOR'S
BUDGET
1987-1988



GEORGE DEUKMEJIAN
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STATE OF CALIFORNIA

CALIFORNIA POSTSECONDARY
EDUCATION COMMISSION



Summary

Executive Director Pickens presented this testimony to the Senate Budget and Fiscal Review Subcommittee #1 of the California Legislature on March 9, 1987

Following a general overview of the Governor's Budget on page 1, Mr. Pickens reviews specific proposals for the segments and agencies of postsecondary education as follows

University of California	Page 1
The California State University	4
California Community Colleges	4
California Student Aid Commission	5

On pages 5-6, he lists four priorities for consideration by the Legislature if it wishes to augment the Governor's Budget for postsecondary education -- (1) Community College cost-of-living allowances, (2) Community College matriculation, (3) base budgets of the University of California and the California State University, and (4) increasing the maximum size of Cal Grants to recognize tuition increases at independent institutions

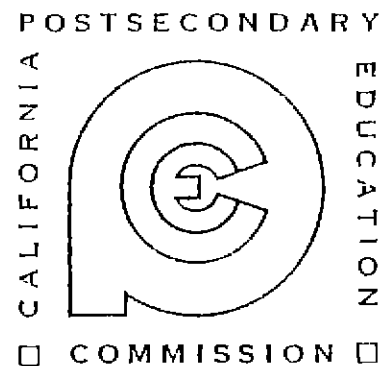
Finally, on pages 6-7, he discusses three long-term fiscal challenges facing postsecondary education in the State -- (1) the need for change in Community College finance and governance, (2) consideration of independent colleges and universities in budget decisions, and (3) sources of funding for capital outlay

Additional copies of this testimony may be obtained from the Publications Office of the Commission. Further information about the testimony may be obtained from Mr. Pickens at the California Postsecondary Education Commission, Third Floor, 1020 Twelfth Street, Sacramento, California 95814-3985

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*Testimony to the Senate Budget
and Fiscal Review Subcommittee #1
by William H. Pickens, Executive Director,
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Contents

Specific Proposals of the Governor's Budget for Higher Education	1
University of California	1
The California State University	4
California Community Colleges	4
California Student Aid Commission	5
Priorities for Additional Funds	5
Long-Term Fiscal Challenges for Postsecondary Education	6
The Need for Change in Community College Finance and Governance	6
Consideration of Independent Colleges and Universities in Budget Decisions	6
Capital Outlay	6

Displays

1. State Funds for the Support of Current Operations for Public Postsecondary Education, Budgeted 1986-87 and Proposed 1987-88 1
2. State Funds for the Support of Current Operations of the Public Segments, Budgeted 1986-87 and Proposed 1987-88 2
3. Funds for Capital Outlay for the Public Segments of Higher Education, Budgeted 1986-87 and Proposed 1987-88 3
4. Segmental Capital Outlay Requests and the Amounts Included in the Governor's 1987-88 Budget (State Funds Only) 3
5. State Funds for Other Institutions and Agencies of Postsecondary Education, Budgeted 1986-87 and Proposed 1987-88 5



Overview of the 1987-88 Governor's Budget for Postsecondary Education in California

OVERALL the Governor's Budget for 1987-88 provides a lean budget at best for higher education in terms of support for current operations. On the positive side, the budget funds enrollment growth, funds salary increases sufficient to maintain University of California faculty salaries near the average of their comparison institutions, and provides funds for a few new programs, such as a small amount for matriculation at the Community Colleges.

On the other hand, substantial amounts of standard costs in the budgets of the four-year institutions are not funded. State University faculty salaries will fall below the average of their comparison institutions, the Community College cost-of-living adjustment (COLA) is half the dollar amount called for in statute, and the University and State University suffer a further reduction of 1 percent to their budget total to be allocated as they choose.

Display 1 below shows the changes proposed from the current year's budget in the Governor's Budget for 1987-88, while Displays 2 through 5 on the following pages show these changes for California's

segments, institutions, and agencies of higher education.

Student fees will increase by 9.1 percent at the University of California and by 10.0 percent at the California State University, in accordance with statutory provisions. Student financial aid is set aside to offset this increase for needy students.

The total amount of capital outlay funds for higher education is the largest in recent history, thanks to passage of a \$400 million bond act last November.

Specific proposals of the Governor's Budget for higher education

University of California

- \$21.3 million to provide up to a 3 percent increase in faculty and non-faculty salaries, beginning January 1, 1988. This level of funding will place faculty salaries 1 percent above parity with the University's comparison institutions. This year, the University

DISPLAY 1 *State Funds for the Support of Current Operations for Public Postsecondary Education, Budgeted 1986-87 and Proposed 1987-88*

Fund Source	1986-87 Budgeted	1987-88 Proposed	Change
State General Fund	\$4,812,100,000	\$4,969,000,000	+3.3%
Lottery Funds	95,875,000	114,729,000	+19.7%
Other State Appropriated Funds*	559,000,000	594,900,000	+6.4%
TOTAL, State Appropriated Funds	\$5,466,975,000	\$5,677,729,000	+3.8%
TOTAL, State General Fund Expenditures	\$30,698,900,000	\$31,263,600,000	+1.8%
Special Funds	5,514,500,000	6,665,500,000	+20.7%
TOTAL, State Budget	\$36,213,400,000	\$37,929,100,000	+4.7%

* Primarily property tax revenues for the Community Colleges.

Note: Columns in this display and other displays may not add to 100% of the total due to rounding.

Source: Governor's Budget 1987-1988.

DISPLAY 2 *State Funds for the Support of Current Operations of the Public Segments, Budgeted 1986-87 and Proposed 1987-88*

Segment and Fund	1986-87 Budgeted	1987-88 Proposed	Change
University of California			
General Fund	\$1,788,315,000	\$1,859,287,000	+4.0%
Capital Outlay Fund for Public Higher Education	--	--	
Special Account for Capital Outlay	--	--	
Lottery Funds	12,110,000	15,081,000	
Other	1,056,000	1,056,000	
TOTAL, State Appropriated Funds	\$1,801,482,000	\$1,875,424,000	+4.1%
Other Funds	<u>1,796,060,000</u>	<u>1,906,975,000</u>	
TOTAL, Budgeted Programs	\$3,597,542,000	\$3,782,399,000	+5.1%
The California State University			
General Fund	\$1,625,904,000	\$1,689,806,000	+3.9%
Capital Outlay Fund for Public Higher Education	--	--	
Special Account for Capital Outlay	5,895,000	--	
Lottery Funds	28,409,000	27,022,000	
Other	100,000	--	
TOTAL, State Appropriated Funds	\$1,660,308,000	\$1,716,828,000	+3.4%
Other Funds	<u>430,576,000</u>	<u>467,211,000</u>	
TOTAL, Programs	\$2,090,884,000	\$2,184,039,000	+4.5%
California Community Colleges¹			
General Fund	\$1,203,200,000	\$1,221,100,000	+1.5%
Capital Outlay Fund for Public Higher Education	--	--	
Local Revenues ²	557,000,000	602,300,000	
Lottery Funds	55,205,000	72,445,000	
TOTAL, State Appropriated Funds	\$1,815,405,000	\$1,895,845,000	+4.4%
Fees and Other Revenues	388,000,000	387,400,000	
Other State Funds and Reimbursements	<u>43,500,000</u>	<u>14,000,000</u>	
TOTAL Revenues	\$2,246,905,000	\$2,297,245,000	+2.2%

1 Federal funds are not included for the California Community Colleges.

2 Local revenues consist of property tax revenues, federal municipal payments, subventions, and local debt.

Source: For the University of California and the California State University: *Governor's Budget 1987-1988*
For the California Community Colleges: *The Legislative Analyst's Analysis of the 1987-88 Governor's Budget*, page 1214, Table 2

DISPLAY 3 *Funds for Capital Outlay for the Public Segments of Higher Education, Budgeted 1986-87 and Proposed 1987-88*

Segment and Fund	1986-87 Budgeted	1987-88 Proposed
University of California		
Capital Outlay Fund for Public Higher Education	\$3,519,000	--
High Technology Education Revenue Bond Fund	72,727,000	\$56,979,000
Higher Education Bond Act of 1966	200,000	--
Public Building Construction Fund	--	31,563,000
Higher Education Capital Outlay Bond Fund	86,375,000	51,000,000
Federal Funds	-	500,000
Other (Nonstate) Funds	288,449,000	--
TOTAL	\$451,270,000	\$140,042,000
 The California State University		
Capital Outlay Fund for Public Higher Education	\$22,147,000	--
High Technology Education Revenue Bond Fund	43,801,000	--
State Construction Program Fund	455,000	--
Public Building Construction Fund	1,870,000	\$35,793,000
Higher Education Capital Outlay Bond Fund	78,430,000	73,000,000
Other (Nonstate) Funds	40,662,000	12,670,000
TOTAL	\$187,365,000	\$121,463,000
 California Community Colleges		
Capital Outlay Fund for Public Higher Education	\$6,515,000	--
Higher Education Capital Outlay Bond Fund	32,731,000	\$31,562,000
Public Building Construction Fund	-	18,075,000
District Matching Funds	3,697,000	4,782,000
All Other Funds	264,000	5,730,000
TOTAL	\$42,943,000	\$54,419,000

Source: *Governor's Budget 1987-1988*

DISPLAY 4 *Segmental Capital Outlay Requests and the Amounts Included in the Governor's 1987-88 Budget (State Funds Only)*

Segment	Amount Requested (Dollars in 000s)	Amount Included in the Governor's Budget (Dollars in 000s)	Percent of Request Included in the Governor's Budget
University of California	\$170,995	\$139,542	81.6%
The California State University	137,753	108,793	79.0
California Community Colleges	66,168	49,637	75.0
TOTAL STATE FUNDS	\$376,410	\$297,972	79.2%

Source: *Governor's Budget 1987-1988*

has maintained a 3.6 percent "margin of excellence" above its comparison institutions. The budget also includes funds to provide non-academic employees with the same salary increase as State employees.

- \$14.7 million and 343 positions for increased enrollment of 2,658 full-time-equivalent undergraduate students above the 1986-87 budgeted level, plus 298 graduate students primarily in the sciences.

- \$1.0 million for affirmative action programs, including graduate outreach, academic support services, fellowships, research assistantships and pre-tenure faculty development.

- \$9.3 million to continue the development of a program of research, graduate enrollment of 48 students, and study abroad specifically in the Pacific Rim countries.

- \$1.0 million, to be matched by University funds for instrumentation and operation of the Keck Observatory.

- \$3.0 million to continue the phased reduction in the University's deferred maintenance backlog, plus \$5.3 million for maintenance of newly constructed facilities.

- \$140.0 million for University capital outlay projects, including \$51 million from the General Obligation Bond approved by the voters in November 1986, \$73 million from the sale of revenue bonds, and \$16 million of revenue bonds for improvements for the University's teaching hospitals.

The California State University

- \$19.9 million to increase faculty and non-faculty salaries by 3 percent effective January 1, 1988, plus \$7.0 million for faculty merit salary adjustments and \$8.8 million for benefits equivalent to those provided for other State employees.

- \$17.8 million and 554 additional positions to provide for an enrollment increase of 5,995 students over the 1986-87 budget level.

- \$6.6 million is provided to maintain existing programs and services, as a result of the State University's budget formulas.

- \$2 million for deferred maintenance.

- \$2.5 million for additional library volumes, instructional supplies and services.

- \$108.3 million of State funds for capital outlay including \$73 million from the Higher Education Capital Outlay General Obligation Bond Fund and \$35.8 million from the Public Buildings Construction Revenue Bond Fund.

California Community Colleges

- \$26.1 million for apportionments and equalization, providing for a 2.7 percent cost-of-living adjustment beginning January 1, 1988 -- or one-half of the total indicated in statute.

- \$22.8 million for ADA growth (1.9 percent).

- \$7.3 million and 3.8 positions for a program of assessment, counseling, placement, and follow-up known as "matriculation," and for new initiatives in transfer education and articulation and academic standards and basic skills. (The money for matriculation has a 50/50 matching requirement for the local districts.)

- \$13.3 million in financial aid funds is continued for fee waivers for students who cannot afford the Community College student fee.

- \$1.0 million for assessment and academic support services for learning disabled students.

- \$12.7 million for deferred maintenance and special repairs and \$12 million (with a 75/25 match required) for the replacement of obsolete instructional equipment.

- \$49.6 million for the Community Colleges capital outlay program, including \$31.6 million from the General Obligation Bond Fund and \$18 million from the Public Buildings Construction Revenue Fund.

- Proposed continuation through June 30, 1988, of the statutes concerning the financing of Community College apportionments and student fees that otherwise become inoperative on July 1, 1987 and January 1, 1988, respectively.

DISPLAY 5 *State Funds for Other Institutions and Agencies of Postsecondary Education, Budgeted 1986-87 and Proposed 1987-88*

Segment and Fund	1986-87 Budgeted	1987-88 Proposed	Change
Hastings College of the Law			
General Fund	\$11,808,000	\$11,475,000	-2.83%
Lottery Funds	<u>121,000</u>	<u>151,000</u>	
TOTAL	\$11,929,000	\$11,626,000	-2.65%
California Maritime Academy			
General Funds	\$6,011,000	\$6,053,000	+0.69%
Lottery Funds	<u>30,000</u>	<u>30,000</u>	
TOTAL	\$6,041,000	\$6,083,000	+0.69%
California Student Aid Commission			
General Fund	\$119,304,000	\$125,066,000	+4.82%
Federal Trust Funds	197,462,000	160,725,000	
Guaranteed Loan Reserve	<u>40,446,000</u>	<u>33,185,000</u>	
TOTAL	\$357,212,000	\$318,976,000	-10.81%
Commission for the Review of the Master Plan for Higher Education			
General Fund	\$588,000	--	
California Postsecondary Education Commission			
General Fund	\$3,901,000	\$3,261,000	-16.41%
Federal Trust Funds	<u>1,216,000</u>	<u>1,174,000</u>	
TOTAL	\$5,117,000	\$4,435,000	-13.33%

Source: Governor's Budget 1987-1988

California Student Aid Commission

- \$3.3 million, or a 5 percent increase for the Commission's Cal Grant programs, providing funds for the same number of new award recipients as in 1986-87 and an overall 5 percent increase in the number of students renewing their awards. (No funding is provided for an increase in the maximum award.)

- Funding for the remaining grant programs will decrease by approximately 2 percent in 1987-88, due to the phasing out of the Bilingual Teacher Grant

program, per legislative and administration agreement last year.

- \$750,000 for work study grants to 1,500 students on 15 campuses.

Priorities for additional funds

If the Legislature wishes to augment the Governor's Budget, Commission staff recommends that the following be considered highest priority:

- Funding sufficient to bring the Community College cost-of-living allowance (COLA) up to 2.7 percent for the full year, per the statutory funding formula,
- An expansion of the \$70 million provided to the Community Colleges for their matriculation program,
- Funds to restore the base budgets of the University of California and the California State University because of limited price increases and denial of merit salary adjustments to non-academic employees, or the 1 percent unallocated reduction,
- Funds to raise the maximum Cal Grant to recognize tuition increases at independent institutions

Long-term fiscal challenges for postsecondary education

The California Postsecondary Education Commission was established in part to provide a long-term view of the academic, program, and fiscal issues that the State will face, not just for the coming year, but for the next decade. In that role, we would identify the following as important among the fiscal challenges that legislators will face in higher education (as distinct from general constraints, such as the Gann Limit)

The need for change in Community College finance and governance

The Community Colleges have become a fragmented collection of institutions, some individually quite good and effective, but frustrated by their almost total dependence on the State for financing. This is a system fundamentally at odds with itself. Its revenues are generated by a rigid State formula -- one based almost exclusively on enrollments and adjusted annually by factors that do not relate directly to the revenue needs of the districts. At the same time most spending decisions are made by local boards of trustees who receive funds appropriated through a budget process where the specific consequences of funding levels are not apparent to State officials.

This spending flexibility leads to many diverse practices among the colleges that frequently raise ques-

tions among State officials who appropriate the funds. Trustees and administrators argue that flexibility is no favor, however, when the total amount of funds are continually insufficient and they have to assume responsibility for collective bargaining, for decisions over freezing salaries, laying off faculty or staff, or not repairing equipment. When district officials become unwilling or unable to do these things and districts are on the verge of insolvency, the problem invariably comes to Sacramento, but the Chancellor has played no role in the resource allocation decisions.

It would appear in everyone's interest for the State to develop policies for the Community Colleges where their diversity is recognized, their roles and governance responsibilities are clarified, and their accountability is identified clearly where apportionments more closely reflect the resource needs of colleges, and where increases relate more clearly to the fiscal needs of the colleges in the budget year.

Consideration of independent colleges and universities in budget decisions

California's independent colleges and universities are a valuable educational resource, and it is important for this sector to remain viable and attractive. For example, independent institutions are second only to the State University in teacher education and enroll twice as many graduate students as the University of California.

The Cal Grant program is the most direct budgetary means where the State influences these institutions, but the level of student fees in public four-year institutions, proposals for new campuses or off-campus centers, and the expansion of graduate enrollments are also part of the budget process that have important consequences for independent colleges and universities. Over the years it is important for the State to include these institutions within its planning for higher education and to consider the consequences of legislative action on their programs and students.

Capital Outlay

The Governor's Budget for 1987-88 proposes a total of \$298.0 million for capital outlay in the three public segments. This is the largest in many years, but the four-year segments have stated that their fu-

ture needs require appropriations of this magnitude for at least five years

- In 1983, the University of California estimated that its needs over the next ten years would be \$1.6 billion for core academic facilities plus \$900 million to keep existing facilities functional.
- The State University estimates its needs at \$688.8 million through 1991-92, and
- The Community Colleges estimate that \$50 million per year will be sufficient through 1998.

These needs are determined by requirements for (a) renewal, replacement, and renovation of many facilities which are 25 or more years old; (b) expansion to meet increasing numbers of students; and (c) new

kinds of facilities to accommodate new research and teaching technology.

Even assuming these estimates are on the high side, California will have to find funding sources for capital outlay beyond the traditional ones of tidelands oil revenues (the COPHE Fund) and sometimes the General Fund, the latter constrained by the Gann Limit. "High Tech Revenue Bond Funds," as they are called, have been an important source for the four-year institutions, but their debt service payments are subject to the Gann Limit.

Since the \$400 million approved by the voters in 1986 has been fully committed by the 1987-88 Governor's Budget, it appears that additional general obligation bond initiatives represent the only realistic public source for capital outlay revenues in the near future.

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California Postsecondary Education Commission Report 87-10

ONE of a series of reports published by the Commission as part of its planning and coordinating responsibilities. Additional copies may be obtained without charge from the Publications Office, California Postsecondary Education Commission, Third Floor, 1020 Twelfth Street, Sacramento, California 95814-3985.

Recent reports of the Commission include

87-2 Women and Minorities in California Public Postsecondary Education: Their Employment, Classification, and Compensation, 1975-1985. The Fourth in the Commission's Series of Biennial Reports on Equal Employment Opportunities in California's Public Colleges and Universities (February 1987).

87-3 Issues Related to Funding of Research at the University of California. A Report to the Legislature in Response to Supplemental Language in the 1985 Budget Act (February 1987).

87-4 The California State University's South Orange County Satellite Center. A Report to the Governor and Legislature in Response to a Request from the California State University for Funds to Operate an Off-Campus Center in Irvine (February 1987).

87-5 Proposed Construction of San Diego State University's North County Center. A Report to the Governor and Legislature in Response to a Request for Capital Funds from the California State University to Build a Permanent Off-Campus Center of San Diego State University in San Marcos (February 1987).

87-6 Interim Evaluation of the California Student Opportunity and Access Program (Cal-SOAP). A Report with Recommendations to the California Student Aid Commission (February 1987).

87-7 Conversations About Financial Aid: Statements and Discussion at a Commission Symposium on Major Issues and Trends in Postsecondary Student Aid (February 1987).

87-8 California Postsecondary Education Commission News, Number 2 [The second issue of the Commission's periodic newsletter] (February 1987).

87-9 Expanding Educational Equity in California's

Schools and Colleges: A Review of Existing and Proposed Programs, 1986-87. A Report to the California Postsecondary Education Commission by Juan C. Gonzalez and Sylvia Hurtado of the Higher Education Research Institute, UCLA, January 20, 1987 (February 1987).

87-11 The Doctorate in Education: Issues of Supply and Demand in California (87).

87-12 Student Public Service and the "Human Corps." A Report to the Legislature in Response to Assembly Concurrent Resolution 158 (Chapter 165 of the Statutes of 1986) (March 1987).

87-13 Standardized Tests Used for Higher Education Admission and Placement in California During 1986. The Second in a Series of Annual Reports Published in Accordance with Senate Bill 1758 (Chapter 1505, Statutes of 1984) (March 1987).

87-14 Time Required to Earn the Bachelor's Degree. A Commission Review of Studies by the California State University and the University of California in Response to Senate Bill 2066 (1986) (March 1987).

87-15 Comments on the Report of the California State University Regarding the Potential Effects of Its 1988 Course Requirements. A Report to the Legislature in Response to Assembly Concurrent Resolution 158 (Chapter 165 of the Statutes of 1986) (March 1987).

87-16 Changes in California State Oversight of Private Postsecondary Education Institutions. A Staff Report to the California Postsecondary Education Commission (March 1987).

87-17 Faculty Salaries in California's Public Universities, 1987-88. The Commission's 1986 Report to the Legislature and Governor in Response to Senate Concurrent Resolution No. 51 (1985) (March 1987).

87-18 Funding Excellence in California Higher Education. A Report in Response to Assembly Concurrent Resolution 141 (1986) (March 1987).

87-19 The Class of '83 One Year Later. A Report on Follow-Up Surveys from the Commission's 1983 High School Eligibility Study (3/87).